

**SEC OBTAINS EMERGENCY ORDERS AGAINST CALIFORNIA FIRM
DEFRAUDING DAY-TRADERS**

Washington, D.C., March 6, 2008 – The Securities and Exchange Commission today announced that it has obtained an emergency court order against an unregistered securities day-trading firm in La Jolla, Calif., that was not disclosing to traders that more than one-third of their money was being used to cover other traders' losses or pay firm expenses. The SEC's complaint alleged that approximately 35 percent of their equity was diverted, leaving an approximately \$3.62 million shortfall in the traders' equity as of Dec. 31, 2007. In issuing the emergency orders, the court found that the SEC had shown that the day-trading firm was violating the broker-dealer registration and antifraud provisions of the federal securities laws, and ordered the appointment of a temporary receiver to safeguard customer assets.

The SEC charged Tuco Trading, LLC, and its principal, Douglas G. Frederick, with violating broker-dealer registration and antifraud provisions of the securities laws. According to the SEC's complaint, the defendants provide securities day-trading capability to Tuco's more than 250 traders who had approximately \$10.2 million invested in Tuco. They permitted traders to day-trade securities in Tuco's own brokerage accounts at registered broker-dealers through sub-accounts created at Tuco for each trader.

The defendants enticed traders with services unavailable at a registered broker-dealer. As alleged in the complaint, they allowed traders to day-trade without meeting the \$25,000 minimum equity requirement under NASD regulations for such trading. The SEC's complaint also alleges that for each \$1 in the trader's sub-account, Tuco and Frederick allowed the traders at Tuco to use up to \$20 of Tuco's equity, which has been invested by other traders, to purchase securities (20:1 buying power). NASD and NYSE regulations, however, only allow a day-trader to have 4:1 buying power.

"Tuco provided traders with trading capability not permitted at registered broker-dealers," said Linda Chatman Thomsen, Director of the SEC's Division of Enforcement. "This case warns investors that the additional trading capability comes at a steep price – the safety of their money."

Rosalind R. Tyson, Acting Regional Director of the SEC's Los Angeles Regional Office, added, "Tuco's unregistered operations posed a substantial risk to both investors and the securities markets, and we will act to stop these operations."

A day-trader actively buys and sells securities, often on the same day, and hopes to make a small profit on each buy-and-sell transaction.

The SEC's complaint also alleges that Tuco received transaction-based compensation for its members' trading, and Tuco's traders conducted substantial day-trading through Tuco's brokerage accounts both in dollar amounts and number of trades. As a result, Frederick earned substantial commissions on the trading as the registered representative for the Tuco principal accounts at the registered broker-dealer. The SEC alleges that Frederick then used substantial amounts of his commissions to pay Tuco's operating expenses.

The SEC's complaint also details the defendants' inaccurate reporting of the traders' equity balances. As of Dec. 31, 2007, Tuco and Frederick used about \$3.62 million of the traders' approximately \$10.2 million total equity to pay Tuco's expenses and to cover trader losses. Approximately a \$1.35 million shortfall remained as of Jan. 31, 2008. Tuco and Frederick failed to disclose those details or that Tuco and Frederick's recovery of the shortfall in the traders' equity is dependent on Frederick's recovering the funds from third parties.

U.S. District Judge Dana M. Sabraw of the U.S. District Court for the Southern District of California found that the SEC had made a prima facie showing that Tuco and Frederick have engaged in, and will continue to engage in future violations, of the broker-dealer registration and antifraud provisions of the federal securities laws, appointed a temporary receiver as a monitor over Tuco, and issued orders against the defendants for accountings, expedited discovery, and prohibiting destruction of documents.

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For more information, contact the SEC's Los Angeles Regional Office:

Andrew Petillon
Associate Regional Director
(323) 965-3214

Kelly Bowers
Senior Assistant Regional Director
(323) 965-3924